

Message Text

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FM AMCONSUL ASMARA

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AMEMBASSY ADDIS ABABA

INFO AMEMBASSY KHARTOUM

AMEMBASSY LONDON

AMEMBASSY MOGADISCIO

CINCUSNAVEUR LONDON

COMNAVTELCOM WASHDC

USCINCEUR VAIHINGEN

COMIDEASTFOR

NAVCOMMUNIT ASMARA

NAVCOMMSTA NEA MAKRI

CNO WASHDC

C O N F I D E N T I A L ASMARA 0653

E.O. 11652: GDS

TAGS: EIND, PINS, ET

SUBJECT: MELOTTI BREWERY: SURVIVING THE INDUSTRIAL
DOWNTURN

1. SUMMARY: THE MELOTTI BREWERY, A MAJOR REVENUE-EARNER IN ERITREA, HAS ENDURED A SEVERE DECLINE IN PRODUCTION, YET AS A RESULT OF DETERMINED MANAGEMENT AND FORESIGHT IN STOCKING RAW MATERIALS, IT MAINTAINS FULL EMPLOYMENT AND A CAPACITY TO RESUME PRODUCTION IMMEDIATELY UPON THE RETURN TO A NORMAL TRANSPORTATION SITUATION. MARKETING PROBLEMS ARE THE KEY OBSTACLE TO EFFECTIVE AND PROFITABLE OPERATION OF THE BREWERY AND HAVE ABORTED PLANNED EXPANSION FOR THE FORESEEABLE FUTURE.

2. PRODUCTION: MELOTTI BREWERY, WHICH PRIOR TO THE OUTBREAK OF
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INTENSE FIGHTING IN EARLY 1975 RETURNED TO ITS FORMER ITALIAN

OWNERS ETH\$6 - 7 MILLION PER YEAR, NOT ONLY PRODUCES BEER, BUT ALSO DISTILLS FIVE DIFFERENT ALCOHOLIC BEVERAGES. AT PRESENT THEY PRODUCE BETWEEN 125-150,000 BOTTLES OF BEER PER DAY, WHICH IS DOWN FROM A PRE-1975 AVERAGE OF 270,000 BOTTLES PER DAY. THE PRODUCTION OF GIN, RUM, COGNAC, ZIBIB AND ANISETTE IS OFF BY 60 PERCENT. THE 49 PERCENT DECLINE IN BEER PRODUCTION IS DUE TO DISTRIBUTION PROBLEMS, WHILE THE DECLINE IN DISTILLED LIQUOR PRODUCTION IS A RESULT OF DIFFICULTIES IN OBTAINING MOLASSES FROM SOUTHERN ETHIOPIA. THE GENERAL MANAGER CLAIMS THAT MELOTTI HAS 18 MONTHS SUPPLY OF BARLEY (20 PERCENT OF WHICH COMES FROM ETHIOPIA) AND HOPS, AND NO SHORTAGE OF YEAST AND CHEMICALS. MELOTTI HAS EXPERIENCED NO SERIOUS DIFFICULTIES FROM SHORTAGES OF POWER OR WATER. ONE MAJOR PROBLEM HAS BEEN THE SUPPLY OF BOTTLES. THE LOCAL GLASS BOTTLE PRODUCER, SAVE, HAS BEEN CUT OFF BY THE INSURGENCY FROM ITS LOCAL SOURCE OF SILICONE SAND, AND HAS BEGUN IMPORTING SAND FROM ISRAEL. THIS SHIFT HAS CAUSED DISRUPTION TO PRODUCTION BOTH FROM TRANSITIONAL SHORTAGES AND FROM PROBLEMS IN DETERMINING THE PROPER MIXTURE OF RAW MATERIALS. A FURTHER HEADACHE HAS BEEN THE RETURN OF EMPTY BOTTLES FROM OTHER AREAS OF ETHIOPIA, TO WHICH A PARTIAL SOLUTION HAS BEEN FOUND IN SHIPPING EMPTIES FROM ASSAB TO MASSAWA AND THEN BY ROAD TO ASMARA.

3. MARKETING: BY FAR, THE MOST SEVERE PROBLEM FACING THE BREWERY IS THAT OF MARKETING AND DISTRIBUTION. PRIOR TO 1975, 60 TO 70 PERCENT OF MELOTTI'S BEER PRODUCTION WAS SOLD OUTSIDE OF ERITREA. ROAD TRANSPORTATION FROM ASMARA IS SO UNCERTAIN THAT ONLY A FRACTION OF MELOTTI'S PRODUCTION IS NOW DISTRIBUTED OUTSIDE ASMARA. AT PRESENT THERE ARE SOME 50 LOADED TRUCKS AND TRAILERS WHICH HAVE BEEN WAITING OVER TWO MONTHS IN THE FACTORY COMPOUND FOR A CONVOY GOING TO ADDIS. THE BREWERY HAS BEGUN TENTATIVELY TO EMPLOY THE COASTAL ROUTE FROM MASXSAWA TO ASSAB TO REACH THEIR INTERNAL MARKET IN ETHIOPIA. OBSTACLES TO DISTRIBUTION HAVE CREATED SUCH A BACKLOG THAT ALL AGING TANKS ARE CURRENTLY FULL, AND THE AGING TIME HAS BEEN INCREASED FROM TWO TO FOUR MONTHS. MELOTTI NOW HAS SOME 15 MILLION LITERS OF BEER ON HAND.

4. EMPLOYMENT: DESPITE DECLINE IN PRODUCTION, MELOTTI HAS MAINTAINED ITS EMPLOYMENT AT 480, WHO ARE AMONG THE HIGHEST PAID INDUSTRIAL WORKERS IN ASMARA. THE PLANT HAS REDUCED FROM TWO SHIFTS TO ONE, CONFIDENTIAL

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AND ARE OCCUPYING ALMOST HALF OF THEIR WORKERS IN MAINTENANCE, REPAIR AND ALTERATIONS.

5. INVESTMENT: THE MELOTTI BREWERY IS ONE OF THE MOST MODERN AND EFFICIENT INDUSTRIAL PLANTS IN ETHIOPIA. BECAUSE OF THE BREWERY'S EXCEPTIONAL PROFITABILITY, THE FORMER ITALIAN OWNER SPARED NO EXPENSE IN TERMS OF PRODUCTIVE MACHINERY AND QUALITY CONTROL EQUIPMENT. PRIOR TO THE DOWNTURN OF BUSINESS AND THE EVENTUAL

NATIONALIZATION OF THE PLANT, THE FORMER OWNERS HAD PLANNED AN EXPANSION PROGRAM WHICH WOULD INCREASE THE BREWERY'S CAPACITY TO 500,000 BOTTLES PER DAY OR ALMOST DOUBLE ITS PRESENT PRODUCTIVE CAPACITY. THIS EXPANSION INCLUDED THE ADDITION OF A NEW MALT HOUSE, A LARGER, MORE EFFICIENT BOILER, AND A NEW BOTTLING LINE. MOST OF THIS EQUIPMENT HAS BEEN DELIVERED AND PUT IN STORAGE EXCEPT THE BOILER WHICH IS BEING INSTALLED BY THE ALREADY UNDER-EMPLOYED WORKERS TO BE USED AS A BACKUP UNIT. INSTALLATION OF THE OTHER NEW EQUIPMENT WILL OBVIOUSLY BE POSTPONED UNTIL THE ECONOMIC SITUATION HAS IMPROVED.

6. COMMENT: MELOTTI BREWERY CONSTITUTES AN EXAMPLE OF HOW RECENTLY-NATIONALIZED INDUSTRIAL FIRMS IN ERITREA REACT TO THE ECONOMIC DOWNTURN. THE CHARACTERISTICS ARE (A) PRODUCTION DECLINE CAUSED BY MARKETING (READ TRANSPORTATION) PROBLEMS, (B) MAINTENANCE OF FULL EMPLOYMENT, (C) CONTINUING PRODUCTION DUE TO LARGE STOCKPILES OF RAW MATERIALS AND (D) SUSPENSION OF ALL PLANNED EXPANSION. THE FACT THAT THESE FIRMS CAN CONTINUE TO OPERATE AT ALL CAN BE ATTRIBUTED TO EPMG DETERMINATION THAT FULL EMPLOYMENT AND AT LEAST MINIMAL PRODUCTIVITY BE MAINTAINED. WHILE THERE IS CONSIDERABLE BRINKSMANSHIP IN FINDING LAST MINUTE ALTERNATIVES TO KEEP THE PLANTS FUNCTIONING, THEY CONTINUE TO SURVIVE THROUGH ADVERSITY.
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